

UPD

SUMMARY OF PROPOSED RATE INCREASE*

Water

- 2007: 11% increase projected to generate an additional \$342,787 in revenue
- 2008: no increase

Sewer

- No increase

Metro Pass-through

- 2007: 9.2% increase
- 2008: no increase

Depreciation Recovery Surcharge (DRS)

- Increase from \$750 per Equivalent Residential Unit (ERU) to \$955 per ERU.

Monthly UPD Water Rates

- Proposed 2007-2008 UPD rate structure:
 - Retains current fixed charges, increasing variable charges to generate required revenue.
 - Revises residential block volume thresholds to reflect lower UPD average usage & enhance conservation signals.

UPD Water Rates	2006	UPD Water Rates	2007	2008
Residential		Annual Rate Increase Assumed	11.0%	0.0%
Fixed (Varies By Meter Size)	\$11.75	Residential		
Variable Charge per ccf:		Fixed (Varies By Meter Size)	\$11.75	\$11.75
Block One (0 - 500 cf per month)	\$1.67	Variable:		
Block Two (501 - 1,100 cf per month)	\$3.22	Block One (0 - 400 cf per month)	\$1.94	\$1.94
Block Three (1,101 - 2,000 cf per month)	\$4.78	Block Two (401 - 900 cf per month)	\$3.74	\$3.74
Block Four (2,001 cf +)	\$6.34	Block Three (901 - 1,600 cf per month)	\$5.56	\$5.56
Commercial & Multi-Family		Block Four (1,601 cf +)	\$7.37	\$7.37
Fixed (Varies By Meter Size)	\$15.60	Commercial & Multi-Family		
Variable Charge per ccf:		Fixed (Varies By Meter Size)	\$14.13	\$14.13
Winter	\$2.19	Variable Charge per ccf:		
Summer	\$3.36	Winter	\$2.54	\$2.54
Irrigation		Summer	\$4.32	\$4.32
Fixed (Varies By Meter Size)	\$15.60	Irrigation		
Variable Charge per ccf	\$4.78	Fixed (Varies By Meter Size)	\$14.13	\$14.13
		Variable Charge per ccf	\$6.58	\$6.58

*Information from FCS Rate Study presented to Council on August 29, 2006

- Other Considerations:
 - City & UPD residential water rates have historically included block volume charges increasing in equal increments.

Residential Block Volume Charge per ccf:	City (Proposed 2007)			UPD (Proposed 2007)	
	Charge	Increment		Charge	Increment
Block One	\$1.38			\$1.94	
Block Two	\$2.68	\$1.30		\$3.74	\$1.80
Block Three	\$3.96	\$1.29		\$5.56	\$1.81
Block Four	\$5.25	\$1.29		\$7.37	\$1.81

- Higher block three & block four charges can send stronger conservation signals to high water users, shifting additional cost recovery to those with greater demand.
- Should the proposed 2007 water rates reflect revised proportionality between volume charges?

Impact on Average Customer (assuming 7ccf)

Sample Residential Monthly Bill	2006	2007	Change From Prior Year	2008	Change From Prior Year
UPD Water (Assuming 7 ccf)	\$26.54	\$30.75	\$4.21	\$30.75	\$0.00
UPD Sewer	\$18.71	\$18.71	\$0.00	\$18.71	\$0.00
King County Metro	\$25.60	\$27.95	\$2.35	\$27.95	\$0.00
Total Water / Sewer Bill	\$70.85	\$77.41	\$6.56	\$77.41	\$0.00

Regional Bill Comparison

Monthly Residential Bills	Total
Skyway WSD	\$ 78.94
Redmond - UPD (Recommended City Rates)	\$ 77.41
Kirkland	\$ 74.13
Redmond - UPD (Current City Rates)	\$ 73.20
Issaquah	\$ 72.18
Coal Creek Utility District	\$ 69.00
Bellevue	\$ 67.00
Renton	\$ 66.11
Soos Creek WSD	\$ 64.12
Sammamish Plateau WSD	\$ 64.10
Mercer Island	\$ 62.98
Redmond - City (Recommended City Rates)	\$ 60.89
Tukwila	\$ 58.94
Redmond - City (Current City Rates)	\$ 56.79
Auburn	\$ 54.60
Kent	\$ 48.64
Assumptions:	
Meter Size:	3/4"
Monthly Water Consumption:	7 ccf
Monthly Sewer Volume:	7 ccf
Monthly Metro Charge (2007):	\$ 27.95

UPD

DESCRIPTION OF NEW PROGRAMS

No new programs were authorized for this fund.

DESCRIPTION OF DEBT PROPOSED

No new debt was proposed for this fund.

EXCERPTS FROM THE FSC GROUP RATE STUDY

Purpose of the Study

- Identify financial requirements in the 2007-2008 budget.
- Determine rate impacts projected for 2007-2008 in the UPD service area.

Overview of Key UPD Financial Elements

- City policy: UPD will not impact city customers/rates
- Rates based on total developed service area (“buildout”).
 - Fixed costs spread over the total future customer base.
 - Depreciation recovery surcharge imposed on new development to fully fund depreciation expense.
- Follow the same fiscal policies required of the city service area.

Changes from Prior Studies

Knowledge & Experience Have Grown:

- Revenues have risen to meet cash operating expenses and contribute towards the depreciation funding policy, but slower than forecast.
- More is known about UPD growth, customer demands, operating costs, and potential build-out costs.
- We can now evaluate cost-of-service and rate structure issues specific to the UPD Service Area.

But The UPD Remains Less Predictable than The City Utilities:

- Results remain dependent on highly variable growth assumptions (both the number of new connections and rate of growth to build-out).
- Demand patterns continue to evolve toward those of a mature customer base.

Depreciation Recovery Surcharge (DRS)

- One-Time charge imposed on new UPD connections.
 - \$750 per Equivalent Residential Unit (ERU):
 - o Water: \$425; Sewer: \$325
- Helps fund the depreciation fiscal policy:
 - Ratepayers only cover their share of build-out depreciation.
 - DRS revenues help cover depreciation prior to build-out.
- Updated analysis shows an *increase* is needed:
 - \$955 per ERU: \$450 Water; \$505 Sewer
 - Slower pace of growth results in larger deficit to cover.
 - Helps ensure full depreciation funding per city policy.
 - Alternatives are higher rates or funding deficits.

Rate Study (cont.)

UPD Rate Requirements for 2007-2008

- UPD sewer rate increase in 2007 for Metro Pass-through only:
 - 9.2% increase or \$2.35 per month per household in King County Metro sewer rates.
- UPD Water Rate increase is required:
 - Upfront increase of 11.0% in 2007.

Primary Drivers For 2007 Water Rate Increase	Rate Impact
Lower Revenues Than Forecast	+16.0%
Lower Expenses Than Forecast	- 5.0%
Total	+11.0%

UPD Water & Sewer Service Area: 2007-2008 Forecasted Performance

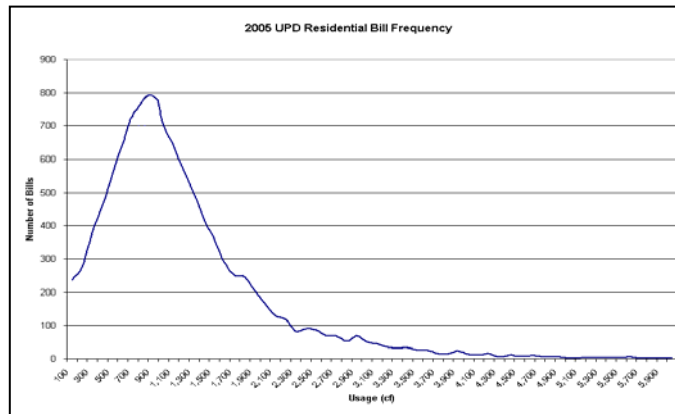
Water & Sewer Combined 2007 / 2008 Performance				
	Financial Test #1	Financial Test #2	Financial Test #3	Financial Test #4
	Net Operating Income	Net Income	Net Cash Flow	Coverage
Operating Revenue				
Water Rate Revenue	\$ 3,116,247	\$ 3,116,247	\$ 3,116,247	\$ 3,116,247
City Sewer Rate Revenue	1,541,049	1,541,049	1,541,049	1,541,049
Regional Water Charges	6,841,744	6,841,744	6,841,744	6,841,744
DRS Revenue	1,208,986	1,208,986	1,208,986	1,208,986
Revenue From Rate Increase	342,787	342,787	342,787	342,787
Metro Revenue	2,295,107	2,295,107	2,295,107	2,295,107
Miscellaneous Revenue	838,604	838,604	838,604	838,604
Total:	\$ 16,184,525	\$ 16,184,525	\$ 16,184,525	\$ 16,184,525
Operating Expenses				
Purchased Water	\$ (2,267,442)	\$ (2,267,442)	\$ (2,267,442)	\$ (2,267,442)
Metro Service	(2,295,107)	(2,295,107)	(2,295,107)	(2,295,107)
Regional Water Charges	(6,841,744)	(6,841,744)	(6,841,744)	(6,841,744)
Other Operating Expenses	(1,901,321)	(1,901,321)	(1,901,321)	(1,901,321)
Depreciation Expense / Transfer	(1,888,256)	(1,888,256)	(2,597,620)	(N/A)
Total:	\$ (15,193,869)	\$ (15,193,869)	\$ (15,903,233)	\$ (13,305,613)
#1 Net Operating Income	\$ 990,656	\$ 990,656	(N/A)	(N/A)
Non-Operating Revenues (Expenses)				
Interest on Debt		\$ -	\$ -	(N/A)
Interest Earned (Fund 402)		58,722	58,722	58,722
Interest Earned (Fund 407)		375,509	-	375,509
Total:		\$ 434,231	\$ 58,722	\$ 434,231
#2 Net Income		\$ 1,424,888	(N/A)	(N/A)
Other Resources (Expenditures)				
Debt Service Principal			\$ -	(N/A)
Reserve Funding			(167,847)	(N/A)
Total:			\$ (167,847)	\$ -
#3 Net Cash Flow			\$ 172,167	(N/A)
Connection Charge Revenue				\$ -
Net Revenue Available for Debt				\$ 3,313,144
Total Debt Service				\$ -
#4 Coverage Realized				(N/A)
Calculated Water Rate Increase, per Financial Test #3			11.00%	
Calculated Sewer Rate Increase, per Financial Test #3			0.00%	

Positive Cash Flow Enables "Catch-Up" On Depreciation Funding

UPD Residential Demand Patterns

UPD residential customers use less water on average than city residential customers.

- Average Monthly Usage (City): ≈ 710 Cubic Feet/Meter Equivalent
- Average Monthly Usage (UPD): ≈ 560 Cubic Feet/Meter Equivalent



UPD OPERATIONS AND MAINTENANCE FUND

REVENUE REPORT

	2005-2006 Budget	2005-2006 Estimate	Over/ (Under)	2007-2008 Budget	Budget to Budget Difference
Beginning Fund Balance	1,109,332	1,109,332	0	1,450,527	341,195
Engineering Fees	667,768	637,285	30,483	667,768	0
Water Sales	2,973,925	2,176,529	797,396	3,139,142	165,217
Sewer Sales	1,510,908	1,037,124	473,784	1,541,049	30,141
Metro Sales	2,015,165	1,436,237	578,928	2,285,106	269,941
RCFC Revenue	1,067,420	4,475,500	(3,408,080)	7,046,996	5,979,576
UPD depreciation Surcharge	732,750	830,689	(97,939)	1,208,986	476,236
Miscellaneous Revenue	525,835	611,858	(86,023)	552,174	26,339
TOTAL REVENUES	10,603,103	12,314,554	(1,711,451)	17,891,748	7,288,645

UPD OPERATIONS AND MAINTENANCE FUND

EXPENDITURE REPORT

	2005-2006 Budget	2005-2006 Estimate	Over/ (Under)	2007-2008 Budget	Budget to Budget Difference
Salaries and Wages					
Salaries	823,588	519,153	304,435	795,931	(27,657)
Overtime	6,107	7,000	(893)	8,000	1,893
Supplemental	0	5,500	(5,500)	0	0
Salaries Subtotal	829,695	531,653	298,042	803,931	(25,764)
Benefits					
City Retirement	65,186	51,709	13,476	87,588	22,403
State Retirement	46,773	29,016	17,758	77,599	30,825
Medical	156,629	119,079	37,550	212,065	55,436
Workers' Compensation	23,523	14,123	9,400	29,100	5,577
Benefits Subtotal	292,111	213,927	78,184	406,352	114,241
Salaries and Benefits Subtotal	1,121,806	745,580	376,226	1,210,283	88,477
Supplies					
Water Purchases	1,599,039	1,620,000	(20,961)	2,267,437	668,398
RCFC Pass-thru to CWA	1,000,000	4,341,657	(3,341,657)	6,841,744	5,841,744
Other Supplies	95,379	74,250	21,129	101,000	5,621
Supplies Subtotal	2,694,418	6,035,907	(3,341,489)	9,210,181	6,515,763
Professional Services					
Consulting Services	159,036	90,800	68,236	119,000	(40,036)
Legal Services	2,106	1,000	1,106	2,000	(106)
Utilities	82,376	102,328	(19,952)	85,623	3,247
Comm, R&M, & Other	13,412	26,000	(12,588)	28,000	14,588
Prof. Services Subtotal	331,530	273,578	57,952	307,623	(23,907)
Intergovernmental					
Deprec Transfer to CIP	2,106,773	1,567,693	539,080	2,597,620	490,847
Metro Wastewater Treat	1,810,372	1,265,000	545,372	2,295,106	484,734
Other Intergovernmental	295,625	305,457	(9,832)	446,563	150,938
Intergovernmental Subtotal	4,212,770	3,138,150	1,074,620	5,339,289	1,126,519
Capital Equipment	286,767	100,000	186,767	290,000	3,233
Interfund Transfers					
General Fund	412,725	495,442	(82,717)	570,623	157,898
Fleet & Other	32,023	32,023	0	28,213	(3,810)
I/F Transfers Subtotal	444,748	570,812	(126,064)	716,869	272,121
Ending Fund Balance	1,511,064	0	0	817,503	(693,561)
Total Expenditures	10,603,103	10,864,027	(1,771,988)	17,891,748	7,288,645